YMELCOR

Annual Report 1976

File

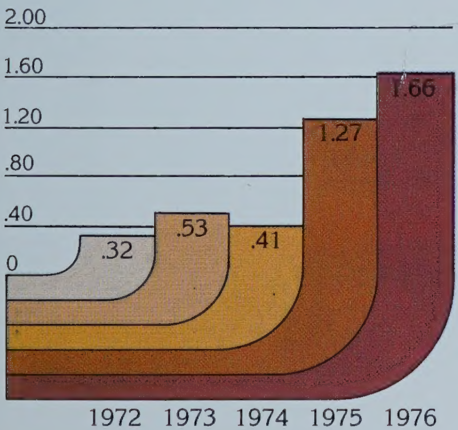
MELCOR DEVELOPMENTS LTD.

Located in northwest Calgary, the community of Ranchlands is being designed to take maximum advantage of the rolling hills, the treed coulees and the panoramic view of Calgary's skyline and the Rocky Mountains; Ranchlands features a combination of developer controls, innovative land use forms and a wide variety of housing types.

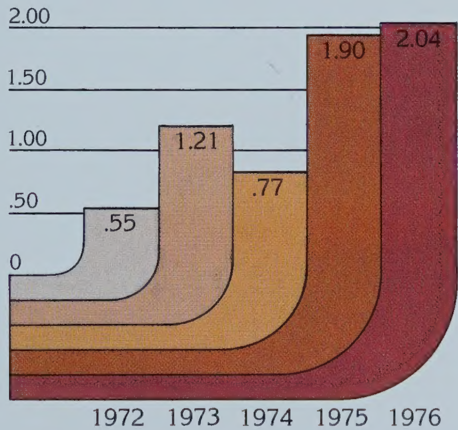
Financial Highlights

	1976	1975
Total Assets	**$62,024,000**	$46,931,000
Shareholders Equity	**16,917,000**	9,990,000
Gross Income	**26,936,000**	22,261,000
Net Income — operations	**4,400,000**	3,495,000
Earnings per share		
— From Operations	**1.66**	1.27
— For Period	**2.78**	1.30
Cash Flow per share	**2.04**	1.90

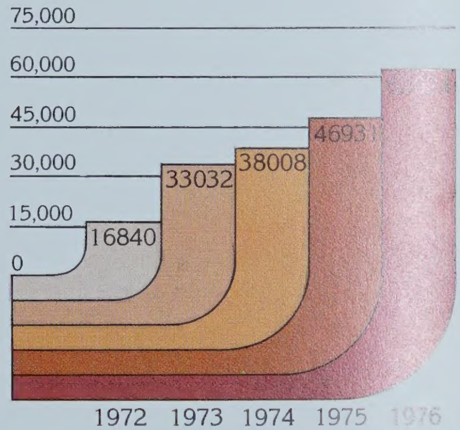
Earnings Per Share — Fully Diluted
In Dollars



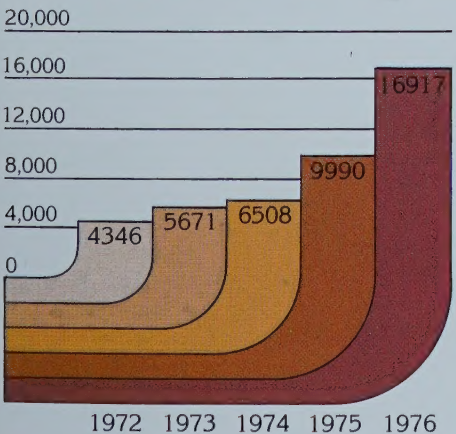
Cash Flow Per Share
In Dollars



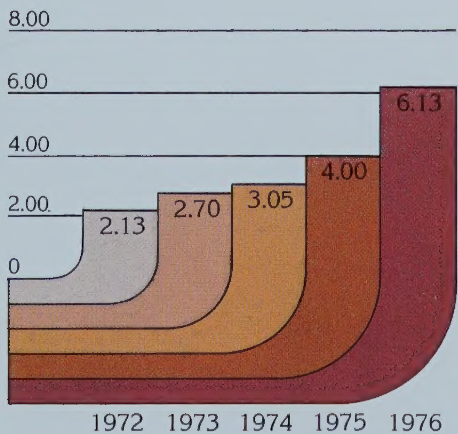
Assets
In Thousands of Dollars



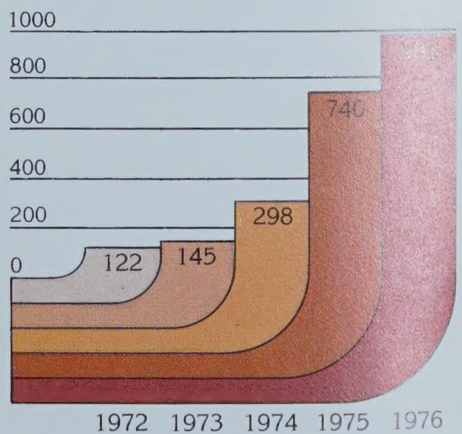
Shareholders Equity
In Thousands of Dollars



Shareholders Equity — Per Share
In Dollars



Dollar Value of Dividend Payments
In Thousands of Dollars



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AUDITORS
Willetts, Macmahon & Company

STOCK LISTED
Toronto Stock Exchange

LEGAL COUNSEL
Field, Owen

Report to Our Shareholders

I am pleased to report that 1976 was an excellent year for Melcor. Net income from operations was $4,400,000 or $1.66 per share compared to 1975 income of $3,567,000 or $1.30 per share.

Extra-ordinary net income of $2,961,000 from the sale of the brokerage division and residential revenue properties increased the income for the year to $7,361,000 or $2.78 per share.

Shareholders equity, after payment of $983,000 in dividends, increased from $9,990,000 to $16,917,000. In management's opinion, the current value of the Company's consolidated property holdings exceeds book value by $50,900,000. After deduction of income taxes, the unrealized excess of market over book value would increase the shareholders equity to $43,800,000 or $15.86 per share.

Dividends

If the Anti-Inflation Board controls on dividends are amended, the Company will pay a dividend of 40¢ per share in 1977. The Directors have approved a dividend of $0.16 per share payable June 15, 1977 to shareholders of record on June 1, 1977. The December 15, 1977 dividend payment to shareholders of record on December 1, 1977 will be $0.16 per share plus any increase permitted by the Anti-Inflation Board to a maximum of $0.24 per share.

T. C. Melton, B. Comm.
President

Land Development Division

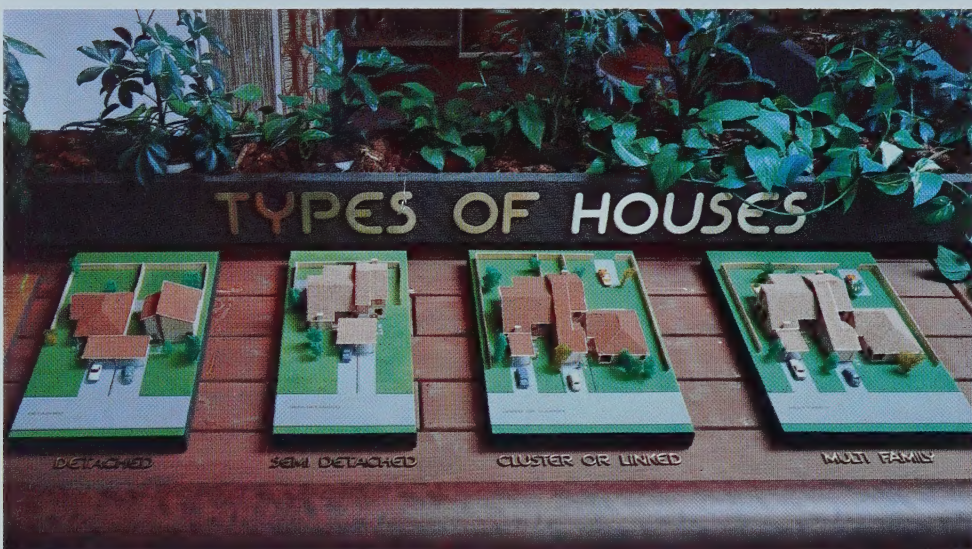
1976 was an active and successful year. Sales increased 45% to 12.5 million dollars and during the year options were exercised on 653 acres of land; 188 acres were purchased and options were obtained on 244 acres.

Calgary

Stage I in the development of Ranchlands was completed and 180 single family lots and 9 acres of multi-family sites were sold. 40 single family lots were reserved for our housing division. Almost all the remaining land in Stage I has been sold.

Development approvals have been received and servicing is underway in Stage II, which has been named Ranchland Estates. We will have 259 single family lots and 16 acres of multiple-family, available for sale in the fall of 1977.

The feasibility of a regional shopping centre and a business park are being considered. A design brief, outlining proposed land use and development policies for the balance of our lands, is being prepared by the City of Calgary.



Before leaving our Information Pavilion, visitors can read about the builders participating in Ranchlands, the types of homes they have to offer, where each builder is located, and how to get to them from the Pavilion.

(Upper Center)
The Ranchlands Information Pavilion is a complete "housefull" of displays and information panels. Visitors can take a visual tour of the development in miniature — from what this land once was, to what will be, one of the finest communities in Calgary.

(Lower Center)
Since Ranchlands features a great variety of innovative housing types, this display in our Information Pavilion visually explains the difference between detached, semi-detached, cluster and multi-family homes.

(Left)
Phase One of Ranchlands is currently a scene of intensive construction activity with several builders already marketing their homes.

Indicative of the rapid development progress in our community of Ranchlands, this construction worker is pouring concrete curbs in the community.

(Left)
Mill Grove, our latest residential community development in Spruce Grove, is located in the lower portion of this aerial photograph.

Edmonton

In the Lymburn subdivision in West Edmonton, 40 lots were retained for our use and the remaining 44 lots were sold. The balance of our land in this subdivision, a 4.12 acre multi-family site and .5 acre commercial site, have been sold this year.

Spruce Grove

The first phase of Millgrove Estates was completed and 167 lots were sold. Of the remaining 67 lots, 32 were transferred to Melcor Homes and 35 have been sold this year. Servicing is proceeding in Phase II and this summer we will have 71 single family lots and 5.34 acres of multi-family land for sale. Servicing has commenced on 15 acres for highway commercial development and 116 acres for industrial development.

Approval in principle has been received for an outline plan for the development of the balance of our land within the Town boundaries. An application has been made for the annexation of 960 acres of which we own or control 630 acres. A decision on our application is expected by early summer.

Leduc

Servicing and sales have been completed in the first phase of the South Park Community, and all 170 lots have been sold or transferred to Melcor Homes. An application has been made for development approvals for the next stage of 100 lots.

The first stage of our industrial subdivision in the County of Leduc was completed in 1976 and to date, 65% has been sold.

Kamloops

The demand for residential lots was very weak and only 30 were sold. We have carried forward 55 lots into 1977 — of which 17 have been sold to purchase a 56-unit condominium.

Melcor Homes Ltd.

Our planned expansion continued in 1976 with the opening of an office in Red Deer and the commencement of construction of homes late in the year. While the number of starts during the year increased 12% to 298, the number of homes sold and occupied decreased 16% to 180. For this reason, we entered 1977 with a high inventory position.

The inventory is spread over twelve projects and is rapidly being reduced by an increased demand and an aggressive marketing program.

In 1977, we will be selling our new series of smaller homes and also, our "Homesteader Series" on the zero sideyard lots in the Ranchlands subdivision. We are looking forward to an increase in the number of units sold.

(Left)
A new series of houses, called the Homesteader Series, have been designed by Melcor Homes for use on the zero sideyards in Ranchlands. Construction of these homes is well under way and, in this photograph, the final touches are added to a Homesteader model just prior to the application of siding.

(Upper Right)
Here a partition is going up in one of our Ranchlands models.

(Upper Center)
Completely finished and furnished show homes are an important marketing tool in the sale of homes. This is a Gem Series model and is Melcor's show home in the community of Mill Grove.

(Lower Center)
Brookwood Park in Spruce Grove is the first condominium built by Melcor Homes. Designed and priced for the first time home-buyer these sixty-four townhomes feature three bedrooms, a bath and a half, full basement, kitchen appliance package and built-in privacy.

Revenue Properties

Residential

During the year, 114 residential units were sold and this policy was continued into 1977 with the sale of the 283 units in Country Lane.

Commercial

Commercial properties are 98% leased and continue to provide a satisfactory return. During the year, we purchased a site outside the downtown Edmonton area for the development in 1977 of a 71,000 sq. ft. office building with main floor retail. In addition, land was purchased for the future development of a neighbourhood shopping center in Regina and a suburban office building in Calgary.

A joint development agreement was signed with Canada Safeway. They will develop a store in Spruce Grove on a site purchased from us and we will develop a 40,000 sq. ft. mall adjoining their store with provision for expansion as the population of the Town increases.

A 48,000 sq. ft. warehouse has been purchased and we are continuing to investigate other opportunities for acquisition or development of commercial income properties.

This is the architect's rendering of a proposed project of our Revenue Properties Division on Stony Plain Road in west Edmonton.

Outlook for 1977

We will have a good supply of serviced land and housing for sale, and this together with our plans for continued growth of all areas of our operation, makes us confident that 1977 will be another satisfactory year.

On behalf of the Board of Directors

T. C. Melton, B. Comm.
President

April 11, 1977

Melcor Developments Ltd. and Subsidiary Companies
Financial Statements
For the year ended December 31, 1976

Consolidated Statement of Income and Retained Earnings

		1976	1975	
Income				
Land sales		**$ 12,562,000**	$ 8,667,000	
House sales		**11,142,000**	10,764,000	
Revenue property income		**2,028,000**	1,986,000	
Interest on agreements receivable		**584,000**	498,000	
Mortgage interest and discounts		**108,000**	146,000	
Interest on note receivable		**290,000**	—	
Other Income		**222,000**	200,000	
		26,936,000	22,261,000	
Expenses				
Cost of land sales		**5,752,000**	4,074,000	
Cost of house sales		**9,042,000**	9,221,000	
Revenue property operating expenses		**751,000**	857,000	
Depreciation		**106,000**	147,000	
Interest - Note 10		**1,157,000**	1,224,000	
Operating and administrative - Note 11		**1,811,000**	1,455,000	
		18,619,000	16,978,000	
Income before income taxes of continuing operations		**8,317,000**	5,283,000	
Income before income taxes of discontinued operations		**—**	1,713,000	
		8,317,000	6,996,000	
Income taxes				
- current		**3,030,000**	2,911,000	
- deferred		**887,000**	590,000	
		3,917,000	3,501,000	
Income before extraordinary items	1.66	**4,400,000**	3,495,000	1,2
Extraordinary items - Note 14		**2,961,000**	72,000	
Net income for the year	2.78	**7,361,000**	3,567,000	1,30
Retained earnings, beginning of year		**7,598,000**	4,770,000	
		14,959,000	8,337,000	
Dividends		**983,000**	739,000	
Retained earnings, end of year		**$ 13,976,000**	$ 7,598,000	

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheet

ASSETS	1976	1975
Commissions and Sundry Receivables	**$ 503,000**	$ 2,766,000
Agreements Receivable on Real Estate Sales	**8,223,000**	6,305,000
Mortgages Receivable	**634,000**	933,000
Investment in Joint Ventures	**—**	202,000
Note Receivable - Note 14	**2,890,000**	—
Real Estate for Development and Sale - Note 2	**38,238,000**	23,003,000
Revenue Properties - Note 3	**11,256,000**	13,057,000
Other Assets	**280,000**	665,000
	$ 62,024,000	$ 46,931,000

APPROVED ON BEHALF OF THE BOARD:

T. C. MELTON *Director*

W. G. HOLMES *Director*

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND EQUITY	1976	1975
Bank Indebtedness - Note 4	**$ 7,573,000**	$ 5,610,000
Accounts Payable	**1,719,000**	2,882,000
Due to Joint Ventures - Note 5	**680,000**	—
Provision for Real Estate Development Costs	**4,412,000**	2,087,000
Income Taxes Payable	**1,483,000**	2,208,000
Agreements Payable on Real Estate for Development and Sale - Note 6	**18,020,000**	11,992,000
Mortgages and Agreements Payable on Revenue Properties - Note 7	**7,901,000**	9,154,000
Debentures	**—**	104,000
Deferred Income Taxes - Note 8	**3,319,000**	2,904,000
	45,107,000	36,941,000
Share Capital - Note 9	**2,940,000**	2,392,000
Retained Earnings	**13,977,000**	7,598,000
	16,917,000	9,990,000
	$ 62,024,000	$ 46,931,000

Auditors Report

To the Shareholders of Melcor Developments Ltd.

We have examined the consolidated balance sheet of Melcor Developments Ltd. as at December 31, 1976 and the consolidated statements of income and retained earnings and source and use of cash for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the source and use of its cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Willetts MacMahon & Company
Chartered Accountants.

Edmonton, Alberta, April 11, 1977.

Consolidated Statement of Source and Use of Cash

	1976	1975
Source of Cash		
Operations	**$ 5,393,000**	$ 4,405,000
Sale of revenue properties	**366,000**	133,000
Sale of brokerage operations	**3,540,000**	—
Bank loans	**1,536,000**	404,000
Decrease in mortgages receivable	**299,000**	218,000
Funds withdrawn from joint ventures	**882,000**	—
Agreements payable on real estate for development and sale	**6,768,000**	1,873,000
Mortgages and agreements payable on revenue properties	**423,000**	476,000
Share capital issued	**547,000**	656,000
Decrease in net operating assets	**—**	1,394,000
	19,754,000	9,559,000
Use of Cash		
Increase in agreements receivable on real estate sales	**1,917,000**	3,440,000
Investment in note receivable	**2,890,000**	—
Increase in inventory of real estate for development and sale, less change in provision for real estate development costs	**12,909,000**	3,486,000
Additions to revenue properties	**370,000**	333,000
Funds advanced to joint ventures	**—**	300,000
Payments on agreements payable on real estate for development and sale	**741,000**	953,000
Payments on mortgages and agreements payable on revenue properties	**141,000**	93,000
Debenture repayment	**104,000**	452,000
Dividends	**983,000**	739,000
Increase in net operating assets	**126,000**	—
	20,181,000	9,796,000
Decrease in cash	**427,000**	237,000
Bank overdraft, beginning of year	**556,000**	319,000
Bank overdraft, end of year	**$ 983,000**	$ 556,000

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

1 — ACCOUNTING POLICIES

The company follows the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Melcor Developments Ltd. and all of its subsidiary companies as follows:

	% Ownership
Melcor Developments (B.C.) Ltd.	100
Melcor Homes Ltd.	100
Trans-Canada Mortgage Ltd.	100
Trans-Canada Joint Mortgages Corporation Ltd.	98
Dollard & Gallagher Ltd.	100

The minority shareholders' equity in the net assets of Trans-Canada Joint Mortgages Corporation Ltd. is not significant and has been included in accounts payable on the consolidated balance sheet.

(b) Joint Ventures

Joint ventures in which the company has less than a 50% interest are accounted for on the equity basis.

(c) Land Development

(i) Cost of Land Held for Future Development

The following costs are capitalized as part of the cost of land:

- Real estate taxes
- Interest on debt specifically related to the acquisition of the land
- Interest on general debt deemed applicable to the investment in land
- Direct costs such as commissions, legal fees and preliminary engineering costs

(ii) Land Under Development

- The cost of the land is pro-rated to each phase of a project on an acreage basis at the time the company enters into a development agreement with the respective municipality
- The total costs of each phase of a project are allocated to individual lots on the anticipated selling price basis
- The unexpended portion of the estimated servicing costs, shown on the balance sheet as "Provision for Real Estate Development Costs", is recorded as a liability at the time the first sales from the phase are recorded
- Whenever an estimate is known to be materially different from the actual costs incurred, an adjustment is made to the cost of the lots and the liability for estimated completion costs

(iii) Recognition of Income

The company recognizes income on sale of land when a minimum of 15% of the sale price has been received and the sale is unconditional.

(d) House Construction

(i) Cost of Residential Lots for Future Construction

The following costs are capitalized as part of the cost of the land:

- Real estate taxes
- Interest on debt specifically related to the acquisition of the land
- Direct costs such as commissions, legal fees and other carrying costs

(ii) Houses Under Construction

The following costs are included in the cost of houses under construction:

- Cost of the land
- Real estate taxes and carrying costs of the land until the house is sold
- Interest on debt specifically related to the land or the construction
- Materials, sub-contract costs, direct labour and other direct development costs, not including administrative overhead

(iii) Recognition of Income

The company recognizes income on sale of houses when the purchaser is entitled to possession and when the company has received the closing funds. The company includes in cost of house sales a provision for warranties to purchasers.
The company defers the recognition of income on condominium sales until it can give legal title to the unit purchaser and possession has taken place and the closing funds received.

(e) Revenue Properties

(i) Cost of Revenue Properties Under Development

The following costs are capitalized as part of the cost of the property until a 75% level of occupancy is achieved subject to a reasonable maximum period dependent upon the size of the project:
- Interest on debt specifically related to the development of the property
- Interest on general debt deemed applicable to the investment in the development
- Operating income and expenses
- Construction costs and other direct development costs

Initial leasing costs are capitalized until the property is fully rented.

(ii) Cost of Land Held for Future Development

The following costs are capitalized as part of the cost of the land:
- Real estate taxes
- Interest on debt specifically related to the acquisition of the land
- Interest on general debt deemed applicable to the investment in the property
- Direct costs such as commissions, legal fees and other carrying costs

(f) Depreciation Policy

The company depreciates buildings using a 5% sinking fund method based on an estimated useful life of 50 years (35 years for frame construction). Other assets are depreciated using either the declining balance or straight-line method depending on the type of asset and its estimated useful life.

(g) Comparative Figures

Certain reclassifications have been made to the 1975 figures to conform with the 1976 presentation.

2 — REAL ESTATE FOR DEVELOPMENT AND SALE

	1976	1975
Land Development		
Land held for future development		
Land cost	**$13,905,000**	$11,481,000
Options	**109,000**	250,000
Carrying costs and pre-development costs	**3,163,000**	1,684,000
	17,177,000	13,415,000
Land developed or under development		
Land cost	**1,849,000**	648,000
Carrying costs	**205,000**	64,000
Development costs	**5,735,000**	1,957,000
	7,789,000	2,669,000
	24,966,000	16,084,000
House Construction		
Houses under construction	**10,581,000**	4,578,000
Residential lots for future construction	**2,691,000**	2,126,000
	13,272,000	6,704,000
Property for Resale	**—**	215,000
	$38,238,000	$23,003,000

The majority of the land held for future development has been acquired by agreement for sale. Title to this land will be obtained when payment on these agreements is made.

The total cost of the land held under option will be $1,262,000 when the options are exercised.

The company also has a contingent asset arising from agreements which give the company the right to purchase one-third of the residential lots to be derived from the future subdivision of 550 acres of land in the City of Edmonton at a fixed price substantially lower than the present market value.

3 — REVENUE PROPERTIES

	1976	1975
Revenue properties		
Land	**$ 1,405,000**	$ 1,381,000
Buildings and equipment	**8,933,000**	10,743,000
	10,338,000	12,124,000
Less: Accumulated depreciation	**264,000**	311,000
	10,074,000	11,813,000
Revenue properties under development		
Land	—	61,000
Development costs	—	344,000
	—	405,000
Land held for future development	**1,182,000**	839,000
	$11,256,000	$13,057,000

4 — BANK INDEBTEDNESS

The company's bank loans are secured by a fixed charge on certain revenue properties and the note receivable, a general assignment of accounts receivable and a floating charge over other assets of the company. The current portion of the indebtedness is $5,473,000. The balance of $2,100,000 is payable at $300,000 per year.

5 — DUE TO JOINT VENTURES

The company's proportionate share of the assets and liabilities of joint ventures at December 31 of each of the following years was:

	1976	1975
Assets		
Cash	**$ 5,000**	$ 7,000
Agreements receivable on real estate sales	—	126,000
Real estate for development and sale - at cost	**17,000**	141,000
	22,000	274,000
Liabilities		
Bank loans	**227,000**	—
Accounts payable	**3,000**	1,000
Income taxes payable	**3,000**	3,000
Provision for real estate development costs	**469,000**	68,000
	702,000	72,000
Investment in (due to) joint ventures	**$(680,000)**	$202,000

The company is contingently liable for the total liabilities of the joint ventures in the amount of $2,968,000, however, the total assets of the joint ventures are sufficient for satisfaction of these liabilities.

6 — AGREEMENTS PAYABLE ON REAL ESTATE FOR DEVELOPMENT AND SALE

	1976	1975
Agreements payable on land held for future development	**$11,123,000**	$ 9,132.000
Agreements payable on residential lots held for future construction	**1,307,000**	1,536,000
Mortgage advances on houses under construction	**5,590,000**	1,324,000
	$18,020,000	$11,992,000

Principal payments due within the next five years on agreements payable on land held for future developments are as follows:

1977	$ 1,646,000
1978	1,364,000
1979	1,290,000
1980	1,543,000
1981	1,101,000
Subsequent	4,179,000
	$11,123,000
Average annual interest rate	8.8%

Principal payments in excess of the amounts due will be made as title is required to initiate development of the various properties.

7 — MORTGAGES AND AGREEMENTS PAYABLE ON REVENUE PROPERTIES

	1976	1975
Mortgages payable on revenue properties	**$4,099,000**	$7,531,000
Mortgages payable on revenue properties subsequently sold — Note 15	**3,379,000**	1,534,000
Agreements on land held for future development	**423,000**	89,000
	$7,901,000	$9,154,000

Principal payments due within the next five years on mortgages payable on revenue properties are as follows:

1977	$ 39,000
1978	42,000
1979	46,000
1980	50,000
1981	55,000
Subsequent	3,867,000
	$4,099,000
Average annual interest rate	9.3%

8 — DEFERRED INCOME TAXES

On a cumulative basis, income taxes payable have been reduced by $3,319,000 as a result of the following:

	1976	1975
Deferring profits on the sale of real estate for tax purposes	**$1,431,000**	$ 959,000
Interest and property taxes on real estate for development and sale deducted for tax purposes	**398,000**	201,000
Depreciation deducted for tax purposes in excess of the amount recorded in the accounts	**994,000**	1,287,000
Interest, property taxes and development costs on revenue properties deducted for tax purposes	**441,000**	560,000
Other items	**55,000**	(103,000)
	$3,319,000	$2,904,000

9 — SHARE CAPITAL

Authorized — 3,000,000 shares of no par value

	Shares	Consideration
Issued		
December 31, 1975	2,500,000	$2,392,000
Warrants converted	231,000	462,000
Employee stock purchases	30,000	86,000
	2,761,000	$2,940,000

Agreements with employees which provide for the purchase of 7,000 shares, provided certain conditions are met, are outstanding. The consideration for these shares will be the market value of the shares at the time the agreements were approved.

10 — INTEREST

	1976	1975
Debenture interest and amortization of deferred costs	**$ 3,000**	$ 45,000
Bank loan interest	**634,000**	538,000
Interest on mortgages and agreements payable on revenue properties	**690,000**	836,000
Interest on agreements payable on real estate for development and sale	**773,000**	424,000
	2,100,000	1,843,000
Less interest capitalized		
Real estate for development and sale	**915,000**	581,000
Revenue property land held for future development	**28,000**	38,000
	943,000	619,000
	$1,157,000	$1,224,000

11 — OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses are comprised of the following items:

	1976	1975
Land development administrative expenses	**$ 389,000**	$ 242,000
House construction administrative expenses	**883,000**	520,000
Revenue property administrative expenses	**93,000**	81,000
Mortgage services administrative expenses	**19,000**	43,000
General corporate expenses	**427,000**	569,000
	$1,811,000	$1,455,000

12 — REMUNERATION TO DIRECTORS AND OFFICERS

Remuneration paid during the year to directors and senior officers of the company amounted to $210,000 (1975 - $206,000)

13 — EARNINGS PER SHARE

	1976	1975
Net income before extraordinary item		
Basic earnings per share	**$ 1.66**	$ 1.50
Fully-diluted earnings per share	**1.66**	1.27
Net income for the year		
Basic earnings per share	**2.78**	1.53
Fully-diluted earnings per share	**2.78**	1.30

Basic earnings per share have been calculated using the weighted monthly average number of shares outstanding.

Fully-diluted earnings per share have been calculated assuming that all warrants outstanding were exercised at the beginning of the year and the funds received invested at an annual return of 12% before income taxes.

14 — EXTRAORDINARY ITEMS

	1976	1975
Sale of goodwill of brokerage business	**$3,024,000**	$ —
Income taxes	**392,000**	—
	2,632,000	—
Sale of revenue properties	**624,000**	142,000
Income taxes - current	**802,000**	59,000
- deferred	**(507,000)**	11,000
	295,000	70,000
	329,000	72,000
	$2,961,000	$ 72,000

The company accepted a promissory note in the amount of $3,000,000 as partial payment relating to the sale of the brokerage business payable in semi-annual installments of $250,000 plus interest at the bank prime lending rate over the term of the note.

15 — SUBSEQUENT EVENTS

In February 1977, the company disposed of a residential revenue property for a consideration of $6,400,000. The net gain on this sale will be approximately $1,180,000 after deducting income taxes of $1,100,000.

16 — ANTI-INFLATION LEGISLATION

The company is subject to the controls on prices, profit margins, compensation and dividends under the Federal Government's Anti-Inflation Program and is satisfied that it has complied with that program.

Land and Property Holdings

LAND DEVELOPMENT

		Approximate Date of Development
Edmonton and Vicinity		
Edmonton		
Residential	8 acres	1979
Residential	40 lots	1977
Residential Option	1/3 of residential lots derived from 550 acres	1978 - 1985
Multi-family	4.12 acres	1977
Commercial	.5 acres	1977
Spruce Grove		
Residential	67 lots	1977
Residential	105 acres	1978 - 1979
Commercial	83 acres	1977 - 1980
Industrial	116 acres	1977 - 1978
Multi-family	8.95 acres	1977
County of Parkland		
Residential	710 acres	1979 - 1992
Residential Options	80 acres	1979 - 1982
Acreages	7 acres	1977
Leduc		
Residential	26 lots	1977
Residential	126 acres	1977 - 1979
County of Leduc		
Industrial	140 acres	1977 - 1978
Acreages	26 lots	1977
Residential Option	80 acres	1979 - 1982
County of Strathcona		
Industrial	117 acres	1979 - 1982
Residential	410 acres	1980 - 1990
Calgary		
Residential	103 lots	1977
Residential	1,025 acres	1977 - 1987
Commercial	60 acres	1978 - 1980
Industrial	13 acres	1977 - 1978
Lethbridge		
Residential Option	134 acres	1980 - 1982
Regina		
Residential Option	70 acres	1979 - 1981

Kamloops

Residential	111 acres	1980
Residential	55 lots	1977
Residential	13 acres	1977

REVENUE PROPERTIES

Residential Properties

Brookwood Manor, Spruce Grove	24 units	constructed in 1973 - 1974
Country Lane, Edmonton	283 units	purchased in 1973 sold in 1977

Commercial Properties

Kingsway Building, Edmonton	7,000 sq. ft.	purchased in 1967
Melton Building, Edmonton	116,700 sq. ft.	constructed in 1973 - 1974
Grove Plaza Shopping Centre, Spruce Grove	41,000 sq. ft.	constructed in 1972 - 1974
Corinthia Park Shopping Centre, Leduc	12,000 sq. ft.	constructed in 1975 - 1976

Land For Future Development

Edmonton		
Stony Plain Road	.55 acres	office
Calgary		
Forest Lawn	.98 acres	commercial retail
Downtown Central	.37 acres	office
Kensington Road	.34 acres	office
Regina		
University Park	6.3 acres	shopping centre

RESIDENTIAL CONSTRUCTION

Houses under Construction

Edmonton region	89 units	completion & sale 1977
Edmonton region - condominium	60 units	completion & sale 1977
Calgary region	48 units	completion & sale 1977
Regina region	82 units	completion & sale 1977
Red Deer region	5 units	completion & sale 1977

Residential lots for future development

Edmonton region	38 lots	construction & sale 1977
Calgary region	10 lots	construction & sale 1977
Regina region	77 lots	construction & sale 1977 - 1978
Red Deer region	50 lots	construction & sale 1977

Financial Review

Because the company is involved in several major activities, the financial information supplied in aggregate terms does not provide sufficient information to enable an understanding of the contributions of each activity to the company as a whole.

In the following schedules, net income from operations before tax has been calculated for each division by deducting from the revenues of the division all direct costs and administrative expenses which can be specifically attributed to the division. Common costs which have not been allocated are the cost of corporate debt - $480,000 (1975 - $388,000) and general corporate expenses (such as audit, public relations and corporate donations, directors' fees and senior management expenses, etc.) The allocation of these costs on an arbitrary basis to the divisions would not assist in the evaluation of the divisional contributions.

The cash flow from operations by division has been calculated by taking the after-tax contribution to net income of each division and adjusting for non-cash items such as deferred income taxes and depreciation.

Earnings - By Division
in thousands of dollars

	1976			1975		
	Gross Revenue	**Net Income**	**%**	Gross Revenue	Net Income	%
Land Development	**$ 14,548**	**$ 7,789**	**78.3**	$ 9,428	$ 4,352	76.2
Residential Construction	**11,142**	**1,217**	**12.2**	10,764	1,024	17.9
Revenue Properties	**2,109**	**496**	**5.0**	1,986	74	1.3
Mortgage	**107**	**88**	**.9**	180	137	2.4
Other Income	**411**	**356**	**3.6**	160	121	2.2
	28,317	**9,946**	**100.0**	22,518	5,708	100.0
Brokerage	**—**	**—**		15,052	1,713	
	28,317	**9,946**		37,570	7,421	
Elimination of Inter-Division Transactions	**(1,381)**	**(764)**		(257)	503	
	$ 26,936	**9,182**		$ 37,313	7,924	
Common Costs		**865**			928	
		8,317			6,996	
Income Taxes		**3,917**			3,501	
Net Income from Operations		**$ 4,400**			$ 3,495	

Cash Flow From Operations - By Division
in thousands of dollars

	1976		1975	
	After-Tax Cash Flow	**%**	After-Tax Cash Flow	%
Land Development	**$ 4,140**	**76.8**	$ 2,863	81.2
Residential Construction	**891**	**16.5**	488	13.8
Revenue Properties	**517**	**9.6**	527	14.9
Mortgages	**47**	**.9**	64	1.9
Other	**185**	**3.4**	42	1.2
Common Costs	**(387)**	**(7.2)**	(456)	(13.0)
	5,393	**100.0**	3,528	100.0
Brokerage	**—**		876	
Total cash flow from operations	**$ 5,393**		$ 4,404	

Divisional Operating Review

	1976	1975	1974	1973	1972
Land Development					
Land sales	**$ 13,904**	$ 8,948	$ 4,737	$ 7,652	$ 3,047
Cost of sales	**6,369**	4,834	2,421	5,248	2,104
	7,535	4,114	2,316	2,404	943
Interest earned	**624**	473	439	182	183
Joint venture income	**(12)**	(20)	—	113	136
Other income	**31**	27	29	67	16
	8,178	4,594	2,784	2,766	1,278
Administrative expenses	**389**	242	203	123	66
Net income before taxes	**$ 7,789**	$ 4,352	$ 2,581	$ 2,643	$ 1,212
Residential Construction					
House sales	**$ 11,142**	$ 10,764	$ 4,540	$ 1,374	$ 494
Cost of sales	**9,042**	9,220	4,053	1,220	425
	2,100	1,544	487	154	69
Administrative expenses	**883**	520	338	97	62
Net income before taxes	**$ 1,217**	$ 1,024	$ 149	$ 57	$ 7
Revenue Properties					
Rental income	**$ 2,109**	$ 1,986	$ 839	$ 492	$ 482
Operating expenses	**750**	857	374	205	244
Interest	**677**	836	409	236	234
Depreciation	**93**	138	70	47	43
	1,520	1,831	853	488	521
	589	155	(14)	4	(39)
Administrative expenses	**93**	81	130	78	47
Net operating income	**496**	74	(144)	(74)	(86)
Gain (loss) on sale of properties	**625**	143	(12)	95	(10)
Net income before taxes	**$ 1,121**	$ 217	$ (156)	$ 21	$ (96)
Mortgage					
Interest and discounts	**$ 107**	$ 143	$ 186	$ 97	$ 93
Gain (loss) on foreclosed property		3	(6)	3	24
Fees earned		34	51	38	30
	107	180	231	138	147
Administrative expenses	**19**	43	49	19	20
Net income before taxes	**$ 88**	$ 137	$ 182	$ 119	$ 127
Brokerage					
Commissions earned		$ 15,052	$ 9,694	$ 7,355	$ 4,772
Commissions paid		9,372	6,097	4,670	2,926
Operating, selling and administrative expenses		3,967	2,828	1,924	1,199
		13,339	8,925	6,594	4,125
Net income before taxes		$ 1,713	$ 769	$ 761	$ 647

Data in thousands of dollars unless otherwise indicated.

Five Year Review

Financial Position	**1976**	1975	1974	1973	1972
Commissions and sundry receivables	**$ 503**	$ 2,766	$ 1,641	$ 1,495	$ 738
Agreements receivable	**8,223**	6,306	2,866	4,899	2,189
Mortgages	**634**	933	1,146	1,065	700
Note receivable	**2,890**				
Real estate for development and sale	**38,238**	23,003	18,550	12,841	7,615
Revenue properties	**11,256**	13,057	13,212	11,927	4,981
Other assets	**280**	866	593	805	617
Total Assets	**62,024**	46,931	38,008	33,032	16,840
Bank indebtedness	**7,573**	5,610	4,969	4,000	—
Accounts payable and other liabilities	**3,884**	5,090	2,705	2,197	1,091
Provision for real estate development costs	**4,412**	2,087	907	2,987	736
Agreements payable - real estate for development and sale	**18,019**	11,992	11,072	6,856	5,859
Mortgages payable - revenue properties	**7,901**	9,153	8,988	8,600	2,808
Debentures	**—**	104	556	834	1,112
Deferred income taxes	**3,319**	2,904	2,303	1,887	888
Share capital	**2,940**	2,393	1,737	1,666	1,587
Retained earnings	**13,976**	7,598	4,771	4,005	2,759
Total Liabilities and Equity	**62,024**	46,931	38,008	33,032	16,840
Operations					
Land sales	**12,562**	8,667	3,368	6,597	3,047
House sales	**11,142**	10,764	4,540	1,374	494
Revenue property income	**2,028**	1,986	839	492	482
Interest on agreements receivable	**584**	498	380	182	183
Mortgage interest and discounts	**107**	146	178	99	117
Interest on note receivable	**290**	—	—	—	—
Joint venture and other income	**223**	200	217	278	278
	26,936	22,261	9,522	9,022	4,601
Cost of land sales	**5,752**	4,074	1,414	4,453	2,104
Cost of house sales	**9,042**	9,221	4,053	1,220	425
Revenue property operating expense	**751**	857	374	205	244
Depreciation	**106**	147	131	89	63
Interest	**1,157**	1,224	848	468	349
Administrative and other	**1,811**	1,455	1,217	621	459
	18,619	16,978	8,037	7,056	3,644
Income from continuing operations	**8,317**	5,283	1,485	1,966	957
Brokerage income	**—**	1,713	769	761	647
	8,317	6,996	2,254	2,727	1,604
Income taxes	**3,917**	3,501	1,190	1,336	764
	4,400	3,495	1,064	1,391	840
Extraordinary items	**2,961**	72	—	—	—
Net income	**$ 7,361**	$ 3,567	$ 1,064	$ 1,391	$ 840
Statistical					
Shares issued - end of year (000's)	**2,761**	2,500	2,133	2,102	2,041
Fully diluted earnings per share					
- before extraordinary items	**$ 1.66**	$ 1.27	$ .41	$ .53	$ .32
- for period	**$ 2.78**	$ 1.30	$ .41	$ .53	$ .32
Cash flow per share	**$ 2.04**	$ 1.90	$ .77	$ 1.21	$ .55
Dividends per share	**$ .36**	$ .30	$ .14	$ .07	$ .06
Equity per share	**$ 6.13**	$ 4.00	$ 3.05	$ 2.70	$ 2.13

Data in thousands of dollars unless otherwise indicated.

Directors

W. G. Bennett, F.R.I.
President, A. E. LePage Melton Real Estate Ltd.

D. A. Carlson, P. Eng.
President, A. V. Carlson Construction Ltd.

W. G. Holmes, C.A.
Vice-President & Secretary-Treasurer
Melcor Developments Ltd.

Senator E. C. Manning, P.C., C.C.
President, M & M Systems Research Ltd.

T. C. Melton, B. Comm.
President, Melcor Developments Ltd.

W. C. Willetts, C.A.
Chairman of the Board, Melcor Developments Ltd.

R. B. Young, P. Eng., M.B.A.
Vice-President, Land Development,
Melcor Developments Ltd.

Corporate Directory

Edmonton

900 - 10310 Jasper Avenue	(403) 429-6931
Corporate Head Office	
President	T. C. Melton
Vice-President & Secretary-Treasurer	W. G. Holmes
Land Development	
Vice-President	R. B. Young
Regional Manager	P. Daly
Residential Construction	
Vice-President	T. Smith
Secretary-Treasurer	D. F. Robarts
Regional Manager	K. West
Revenue Properties	
General Manager	T. Cook

Calgary

304 - 1220 Kensington Road, N.W.	(403) 283-3336
Land Development	
Regional Manager	D. Erickson
Residential Construction	
Regional Manager	O. Harasym

Regina

219 - 3806 Albert Street	(306) 585-0055
Residential Construction	
Regional Manager	B. Scarrow

Red Deer

2 - 5208 - 53 Avenue	(403) 343-0817
Residential Construction	
Regional Manager	F. Bishop

Consolidated Statement of Source and Use of Cash

FOR THE SIX MONTHS ENDED JUNE 30, 1976
(with comparative figures for the six months ended June 30, 1975)
(Unaudited)

	1976	1975
Source of Cash		
Operations	$1,119,983	$1,888,289
Proceeds (net of appliable mortgages) on disposal of revenue properties less related income taxes	839,387	—
Proceeds from sale of brokerage operations less related income taxes	3,664,943	—
Bank loans	2,926,000	—
Agreements payable on real estate for development and sale	2,731,770	1,141,302
Mortgages and agreements payable on revenue properties	122,500	465,000
Share capital	440,750	532,235
Reduction in inventory of real estate for development and sale less change in provision for real estate development costs	—	1,342,793
Decrease in mortages receivable	190,862	—
	12,036,195	5,369,619
Use of Cash		
Increase in mortgages receivable	—	378,355
Increase in agreements receivable on real estate sales	73,896	1,268,539
Investment in notes receivable	3,149,180	—
Increase in inventory of real estate for development and sale less change in provision for real estate development costs	5,069,031	—
Payments on agreements payable on real estate for development and sale	1,149,216	2,410,027
Payments on mortgages and agreements payable on revenue properties	115,674	66,998
Debenture repayment	103,791	—
Funds advanced to joint venture	188,999	206,261
Purchase of fixed assets	16,687	36,423
Dividends	541,901	364,545
Increase in net operating assets	1,847,002	245,076
Reduction in bank loans	—	300,000
Additions to revenue properties	—	81,880
	12,255,377	5,358,104
Increase (Decrease) in cash	(219,182)	11,515
Bank overdraft beginning of period	556,335	318,997
Bank overdraft end of period	$ 775,517	$ 307,482

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MELCOR DEVELOPMENTS LTD.
FORMERLY MELTON REAL ESTATE LTD.
#900 - 10310 Jasper Avenue, Edmonton, Alberta T5J 1Y8
(403) 429-6931

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MELCOR DEVELOPMENTS LTD.

INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 1976

Report to the Shareholders

FINANCIAL RESULTS

Your Directors are pleased to advise that the net after tax income of your company for the six months ending June 30, 1976 was $4,204,604. or $1.52 per share. The net income for the same period last year was $1,389,508. or $.51 per share. The increased income this year results from the sale of our brokerage division and residential revenue properties. Total assets of your company now exceed fifty million dollars.

LAND DEVELOPMENT

The anticipated sale of lots during the second quarter did not materialize due to delays in registration of subdivision plans in Ranchlands in north west Calgary and Lymburn in Edmonton. While the housing market remains weak, builder confidence in a recovery remains high as indicated by the continued demand for serviced lots. Sales have now commenced in the Ranchland subdivision in north west Calgary with the registration of the first subdivision plan. The second subdivision plan for Stage I should be registered during the third quarter. Ranchlands Stage I will accommodate 500 attached and detached dwelling units. The sale of 50 acres of roadway to the City of Calgary was completed.

The allocation to builders of 82 single family lots has been completed in Lymburn. Registration of the subdivision plan and sale of the lots will be completed in the third quarter.

HOME CONSTRUCTION

The second quarter of 1976 was the most profitable in the history of this division. Gross revenue and net income for the year to date show substantial increases over last year. However, with the softer market experienced in the second quarter sales decreased and this will result in fewer closings and lower profits during the third quarter.

REVENUE PROPERTIES

Operating income from our investment properties continues to improve and is up considerably from the same period last year. Our income producing properties give the company a continuous flow of stable income and we are planning to increase our portfolio by acquisition or development.

DIVIDENDS

Your Directors have declared a dividend of $.16 per share payable December 15, 1976 to shareholders of record on December 1, 1976.

SHARE PURCHASE WARRANTS

Shareholders holding share purchase warrants which were issued with our Series A Debentures are reminded that the warrants expire on August 31, 1976.

OUTLOOK

During the past six month period the real estate market has gone from one of strong demand and short supply to one of weaker demand and increasing supply. We expect that the real estate market will continue to be soft over the next few months with improvements coming late this year.

On behalf of the Board of Directors

T.C. Melton, B.Comm.
President

August 10, 1976

Consolidated Balance Sheet

JUNE 30, 1976
(with comparative figures at June 30, 1975)
(Unaudited)

ASSETS	1976	1975
Commissions and sundry receivables	$ 593,574	$ 2,974,214
Note receivable	3,149,180	—
Agreements receivable on real estate sales	6,379,507	4,134,141
Mortgages receivable	742,189	1,524,417
Due from joint ventures	391,207	108,500
Real estate for development and sale	28,048,632	17,375,153
Revenue properties	10,787,983	13,232,910
Fixed assets, at cost less accumulated depreciation	70,132	369,355
Deferred costs, prepaid expenses and sundry assets	251,402	323,258
	$50,413,806	$40,041,948

LIABILITIES and EQUITY	1976	1975
Bank indebtedness	$ 8,755,517	$ 4,657,482
Accounts payable	996,745	3,151,677
Income taxes payable	766,036	645,686
Provision for real estate development costs	1,921,230	1,074,592
Agreements payable on land for development and sale	13,574,570	9,803,182
Mortgages and agreements payable on revenue properties	7,626,685	9,386,424
Debentures	—	555,750
Deferred income taxes	2,679,397	2,702,579
	36,320,180	31,977,372
Share capital	2,833,273	2,269,048
Retained earnings	11,260,353	5,795,528
	14,093,626	8,064,576
	$50,413,806	$40,041,948

Consolidated Statement of Income

FOR THE SIX MONTHS ENDED JUNE 30, 1976
(with comparative figures for the six months ended June 30, 1975)
(Unaudited)

	1976		1975	
	Gross Revenue	Net Income	Gross Revenue	Net Income
By Division				
Residential construction	$ 7,491,478	$ 955,430	$ 5,019,453	$ 365,696
Land development	4,088,905	1,951,344	3,490,533	1,662,835
Revenue properties	1,028,560	272,913	925,232	(3,384)
Mortgage	50,618	41,030	83,526	60,190
Other income	309,680	224,379	148,281	119,475
Brokerage	—	—	7,311,689	905,401
	12,969,241	3,445,096	16,978,714	3,110,213
Elimination of interdivision transactions	1,765,938	604,676	275,766	(157,625)
	$11,203,303	2,840,420	$16,702,948	3,267,838
Common costs		445,208		498,330
		2,395,212		2,769,508
Income taxes		1,135,000		1,380,000
Income before extraordinary items		1,260,212		1,389,508
Extraordinary items				
Gain on sale of brokerage operations less related income taxes of $393,000		2,613,204		—
Gain on sale of revenue properties, less related income taxes of $295,000		331,188		—
Net Income for the period		$ 4,204,604		$ 1,389,508
Included in the above are the following expenses:				
Interest		$ 642,009		$ 606,778
Depreciation		44,771		98,781
		$ 686,780		$ 705,559
Earnings per share				
Before extraordinary items — basic		$.48		$.60
— fully diluted		.46		:51
For period — basic		1.60		.60
— fully diluted		1.52		.51